

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name ALPENA COUNTY ROAD COMMISSION	County ALPENA
Audit Date 12/31/05	Opinion Date 04/05/06	Date Accountant Report Submitted to State: 05/24/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) STEWART, BEAUVAIS & WHIPPLE PC			
Street Address 1979 HOLLAND AVENUE	City PORT HURON	State MI	ZIP 48060
Accountant Signature 			Date 05/24/06

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2005

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Alpena County
Alpena, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Alpena County, Michigan, a component unit of Alpena County, as of December 31, 2005 and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Alpena County, Michigan, as of December 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 5, 2006, on our consideration of the Road Commission of Alpena County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules on pages 22-24 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Alpena County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

April 5, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Alpena County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Alpena County Road Commission's basic financial statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) governmental fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Alpena County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Alpena County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unused vacation and sick).

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

The Alpena County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$31,273,484 at the end of the year. This is an increase of \$1,518,734 from December 31, 2004.

The net assets are separated into three major components, investment in capital assets which amounted to \$28,280,624 or 90.42% of net assets, restricted net assets of \$10,916 or .04% and finally unrestricted net assets of \$2,981,944 or 9.54%. The restricted net assets are the net assets that resulted from Primary Road activities and are restricted by the Michigan Department of Transportation to be used on the Primary Roads. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure). The Road Commission has no related debt used to acquire those assets that is still outstanding. The Road Commission uses the capital assets to provide services to citizens; consequently these assets are not available for future spending. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets, restricted and unrestricted net assets).

Because this is the second year of implementation of Governmental Accounting Standards Board No. 34, which requires this new reporting model, the following table presents current year data as well as the prior year data for comparative analysis.

Condensed Statement of Net Assets

	<u>2005</u>	<u>2004</u>
Assets		
Current and other unrestricted assets	\$ 3,318,990	\$ 4,699,431
Capital assets	<u>28,280,624</u>	<u>25,347,617</u>
Total Assets	<u>31,599,614</u>	<u>30,047,048</u>
Liabilities		
Long-term liabilities outstanding	75,099	74,059
Other liabilities	<u>251,032</u>	<u>218,239</u>
Total Liabilities	<u>326,131</u>	<u>292,298</u>
Net Assets:		
Invested in capital assets	28,280,624	25,347,617
Restricted	10,913	1,934,250
Unrestricted	<u>2,981,946</u>	<u>2,472,883</u>
Total Net Assets	<u>\$ 31,273,483</u>	<u>\$ 29,754,750</u>

Condensed Statement of Activities

	<u>2005</u>	<u>2004</u>
Revenues		
Intergovernmental -		
Permits	\$ 27,337	\$ 24,623
Federal Sources	423,022	427,886
State Sources	3,708,152	3,514,765
Local Sources	1,051,237	426,801
Charges for Services	597,802	595,098
Interest and rents	62,487	42,507
Other	<u>275,979</u>	<u>156,821</u>
	<u>6,146,013</u>	<u>5,188,501</u>
Expenses		
Maintenance	3,202,856	2,890,731
Administration	323,921	306,572
Equipment (net)	(550,900)	(496,283)
Depreciation	<u>1,651,403</u>	<u>1,525,374</u>
	<u>4,627,280</u>	<u>4,226,394</u>
Change in Net Assets	<u>\$ 1,518,733</u>	<u>\$ 962,107</u>

Financial Analysis of Governmental Fund Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$2,951,947, a decrease of \$1,372,850 from the prior year. Approximately 55% or \$2,390,547 of the fund balance constitutes unreserved fund balance, which is available for spending at the government's discretion. Approximately 45% or \$1,934,250 has been reserved for expenditures related to primary roads and forest funds as required by the Michigan Department of Transportation.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2005 budget to reflect status changes in maintenance and preservation-structural improvement projects. The final budget was \$1,164,636 greater in revenue than the original budget basically as a result of an increase in federal, state and local funding to finance the increase in preservation-structural improvement projects, and a gain on the sale of equipment. The final budget was \$1,218,969 in expenditures than the original budget as a result of the aforementioned projects as well as projected increases in primary and local routine maintenance.

CAPITAL ASSETS

Capital Assets - The Road Commission had \$25,347,617 in capital assets at the end of the year. The reason for the increase from the previous year was the capitalization of construction/capital improvements and preservation-structural improvement, road and bridge projects funded by federal, state and local revenues.

A summary of capital assets net of accumulated depreciation at December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Land and land improvements	\$ 10,106,804	\$ 9,385,402
Buildings	872,796	838,008
Equipment	994,138	830,009
Infrastructure	<u>16,306,886</u>	<u>14,294,198</u>
Total Capital Assets	<u>\$ 28,280,624</u>	<u>\$ 25,347,617</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The majority of Commission revenue streams are declining. Long-term state fiscal crisis is starting to affect local abilities to provide increased levels of maintenance. Long-term crisis is also starting to affect cost sharing programs currently in effect with township transportation partners.

Our 2006 budget is programmed for revenues maintaining the current level in most areas, except for a decrease in federal and state funding for road preservation-structural improvement, and a decrease in MTF revenues. Expenditures will decrease in the areas of preservation-structure improvement, routine maintenance and state trunkline maintenance. It is anticipated our fund equity will increase \$1,295 for 2006 or basically remain the same as 2005.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Alpena County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Alpena County Road Commission, 1400 N. Bagley Street, Alpena, Michigan, 49707.

BASIC FINANCIAL STATEMENTS

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,141,095	\$ -	\$ 1,141,095
Investments	1,000,000	-	1,000,000
Due from other governmental units -			
Federal	-	-	-
State	595,082	-	595,082
Local	-	-	-
Special assessments receivable	83,627	-	83,627
Accounts receivable	13,205	-	13,205
Accrued interest	-	-	-
Prepaid expenditures/expenses	-	76,239	76,239
Inventory	409,742	-	409,742
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	10,106,804	10,106,804
Assets being depreciated	-	18,173,820	18,173,820
Total Assets	<u>\$ 3,242,751</u>	<u>\$ 28,356,863</u>	<u>\$ 31,599,614</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 70,114	\$ -	\$ 70,114
Accrued liabilities	18,487	-	18,487
Due to other governmental units	7,094	-	7,094
Deferred revenue	39,772	(39,772)	-
Advances and deposits	155,337	-	155,337
Noncurrent liabilities -			
Due in more than one year	-	75,099	75,099
Total Liabilities	<u>290,804</u>	<u>35,327</u>	<u>326,131</u>
Fund Balance:			
Fund Balance -			
Reserved -			
Primary roads	10,913	(10,913)	-
Unreserved -			
Undesignated	2,941,034	(2,941,034)	-
Total Fund Balance	<u>2,951,947</u>	<u>(2,951,947)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u><u>\$ 3,242,751</u></u>		
Net Assets:			
Invested in capital assets net of related debt		28,280,624	28,280,624
Restricted -			
Primary roads		10,913	10,913
Unrestricted		2,981,946	2,981,946
Total Net Assets		<u><u>\$ 31,273,483</u></u>	<u><u>\$ 31,273,483</u></u>

See Notes to Financial Statements

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 27,334	\$ -	\$ 27,334
Intergovernmental -			
Federal sources	423,022	-	423,022
State sources	3,708,152	-	3,708,152
Local sources	1,051,237	-	1,051,237
Charges for services	597,802	-	597,802
Interest and rents	64,712	(2,225)	62,487
Other	319,945	(43,966)	275,979
Total Revenues	<u>6,192,204</u>	<u>(46,191)</u>	<u>6,146,013</u>
Expenditures/Expenses:			
Current -			
Local construction/capacity improvements	13,466	(13,466)	-
Primary preservation - structural improvements	3,161,919	(3,161,919)	-
Local preservation - structural improvements	831,591	(831,591)	-
Primary maintenance	1,266,483	(2,383)	1,264,100
Local maintenance	1,349,530	(2,383)	1,347,147
State maintenance	591,609	-	591,609
Administrative - net	334,234	(10,313)	323,921
Equipment	1,224,592	(370,382)	854,210
Less equipment rental charged			
other activities	(1,405,110)	-	(1,405,110)
Depreciation	-	1,651,403	1,651,403
Capital Outlay	599,378	(599,378)	-
Less depreciation credit	(402,638)	402,638	-
Total Expenditures/Expenses	<u>7,565,054</u>	<u>(2,937,774)</u>	<u>4,627,280</u>
Excess of revenues over (under) expenditures/expenses	(1,372,850)	2,891,583	1,518,733
Fund Balance/Net Assets at January 1, 2005	<u>4,324,797</u>	<u>25,429,953</u>	<u>29,754,750</u>
Fund Balance/Net Assets at December 31, 2005	<u><u>\$ 2,951,947</u></u>	<u><u>\$ 28,321,536</u></u>	<u><u>\$ 31,273,483</u></u>

See Notes to Financial Statements

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 25,000	\$ 25,000	\$ 27,334	\$ 2,334
Intergovernmental -				
Federal sources	384,000	398,744	423,022	24,278
State sources	3,146,045	3,717,985	3,708,152	(9,833)
Local sources	686,030	1,068,868	1,051,237	(17,631)
Charges for services	448,278	571,425	597,802	26,377
Interest and rents	60,000	60,000	64,712	4,712
Other	13,300	85,267	319,945	234,678
	<u>4,762,653</u>	<u>5,927,289</u>	<u>6,192,204</u>	<u>264,915</u>
Expenditures:				
Current -				
Local construction/capacity improvements	-	-	13,466	(13,466)
Primary preservation - structural improvements	2,583,238	3,162,908	3,161,919	989
Local preservation - structural improvements	863,650	831,857	831,591	266
Primary maintenance	1,040,750	1,267,094	1,266,483	611
Local maintenance	1,089,000	1,349,949	1,349,530	419
State maintenance	448,278	571,425	591,609	(20,184)
Administrative	318,500	334,557	334,234	323
Equipment - net	(203,200)	(134,632)	(180,518)	45,886
Capital Outlay - net	(50,300)	(74,273)	196,740	(271,013)
Total Expenditures	<u>6,089,916</u>	<u>7,308,885</u>	<u>7,565,054</u>	<u>(256,169)</u>
Excess of revenues over (under) expenditures	(1,327,263)	(1,381,596)	(1,372,850)	8,746
Fund Balance at January 1, 2005	<u>4,324,797</u>	<u>4,324,797</u>	<u>4,324,797</u>	<u>-</u>
Fund Balance at December 31, 2005	<u>\$ 2,997,534</u>	<u>\$ 2,943,201</u>	<u>\$ 2,951,947</u>	<u>\$ 8,746</u>

See Notes to Financial Statements

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Alpena County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's financial statements.

A. Description of Road Commission Operations –

The Alpena County Road Fund, referred to as the Road Commission, is a component unit of the County of Alpena, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to eight (8) Townships in Alpena County and maintains 660 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash and Cash Equivalents – Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of ninety days or less from the date of purchase. Investments represent certificates of deposit with maturity from date of purchase over ninety days and are recorded at cost which approximates fair value.

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the average cost which approximates market.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. No minimum cost is used to record road equipment capital assets and infrastructure are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

Accrued Vacation Pay – In accordance with contracts negotiated with the various employee groups, individual employees have vested rights upon termination of employment to receive payments for unused vacation leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements (statement of net assets).

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Deferred Revenues – In both the government-wide and the governmental fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Advances From The State of Michigan – The State of Michigan advances funds on a State maintenance agreement it has with the Alpena County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Equipment Rentals – The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Estimates - In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 8).

Fund Balance – governmental fund	\$ 2,951,947
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	42,690,521
Deduct – accumulated depreciation	(14,409,897)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	(75,099)

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont'd):

Prepaid expenses not reported in the governmental fund statements	\$ 76,239
Revenues that have been deferred in the governmental fund statements because they are not “available”	<u>39,772</u>
Net Assets	<u>\$ 31,273,483</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

Excess of revenues under expenditures - governmental fund statement	\$(1,372,850)
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add - capital outlay and infrastructure	4,606,354
Deduct - depreciation	(1,651,403)
Deduct - retirements	(21,944)
Revenues are deferred in the governmental fund statements because they do not provide current financial resources that are reported in the government-wide Statement of Activities	(43,966)
Accrued interest adjustment not reported in the governmental fund statements	(2,225)
Prepaid expense adjustment not reported in the governmental fund statements	5,807
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	<u>(1,040)</u>
Change in Net Assets	<u>\$ 1,518,733</u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Road Commission Chief Financial Officer prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Operating Fund is adopted on the modified accrual basis which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is legally enacted through passage of a Board of County Road Commissioners Resolution. After the budget is adopted, the Chief Finance Officer is authorized to transfer amounts between items of the adopted budget at year-end to reflect the effects of the distribution of the distributive account. All other amendments to the budget must have direct approval of the Board of County Road Commissioners.

The Road Commission's approved budget was adopted at the expenditure control level by activity. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act and the level requiring approval by the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Expenditures at these legally adopted levels in excess of the amount budgeted are a violation of the Budgeting Act. During the year ended December 31, 2005, the Road Commission had expenditures over budget as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2005, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 200
Deposits with Financial Institutions	
Imprest Checking	4,508
Checking maintained by County Treasurer	1,136,387
Certificates maintained by County Treasurer	<u>1,000,000</u>
	<u>\$ 2,141,095</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Alpena County Treasurer's Office, and in order to make disbursements, the Alpena County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

Information on the Alpena County investment policy and the various investment risk categories may be obtained from the Alpena County Financial Report for the year ended December 31, 2005.

Deposits –

As a component unit of Alpena County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Alpena County at banking institutions insured by federal depository insurance. However, the Road Commission by State statute has fund allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts and certificates of deposit. At December 31, 2005, the carrying amount of the Road Commission's deposits is \$2,140,895, and the bank balance is \$2,331,912, of which \$200,000 is FDIC insured, and the remaining balance exposed to credit risk since it is uninsured and uncollateralized.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS – (cont'd):

Investments –

The Road Commission has reported certificates of deposit in the financial statements as investments since the date of maturity is greater than 90 days from the date of purchase.

NOTE 5 - SUBDIVISION STREET PAVING AND IMPROVEMENT PROGRAM:

The amount due on Special Assessments of \$83,627 at December 31, 2005, represents the amount due on two subdivision street paving and improvement programs. The amount of \$32,727 is due from a township at large with the balance of \$50,910 due from property owners.

NOTE 6 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2005, the Road Commission of Alpena County had less than \$500,000 of applicable federal awards for local force expenditures. As result, an audit for compliance under the Single Audit Act is not required.

The federal revenues of \$423,022 represent the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however, are required to be reported by the Road Commission.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2005	Additions	Deletions	Reclass and Removals	Balance December 31, 2005
Capital Assets, not being depreciated –					
Land	\$ 23,080	\$ -	\$ -	\$(2,399)	\$ 20,681
Land improvements	9,293,002	710,703	-	-	10,003,705
Right of Ways	69,325	13,093	-	-	82,418
Total Capital Assets, not being depreciated	<u>9,385,407</u>	<u>723,796</u>	<u>-</u>	<u>(2,399)</u>	<u>10,106,804</u>
Capital Assets, being depreciated –					
Buildings and improvements	1,460,687	66,371	-	-	1,527,058
Road Equipment	3,929,789	527,262	419,248	2,972	4,040,775
Shop Equipment	142,136	1,934	-	-	144,070
Office Equipment	131,537	3,811	-	(17)	135,331
Engineering equipment	57,719	-	-	-	57,719
Yard and storage	204,365	-	-	-	204,365
Infrastructure -					
Roads	19,462,559	2,816,588	-	(369,662)	21,909,485
Bridges	3,938,889	466,592	-	(14,032)	4,391,449
Traffic signals	24,831	-	-	-	24,831
Depletable assets –					
Gravel pits	146,235	-	-	2,399	148,634
	<u>29,498,747</u>	<u>3,882,558</u>	<u>419,248</u>	<u>(378,340)</u>	<u>32,583,717</u>
Less – accumulated depreciation for –					
Buildings and improvements	622,679	31,583	-	-	654,262
Road Equipment	3,246,733	318,266	397,304	777	3,168,472
Shop Equipment	72,522	9,719	-	-	82,241
Office Equipment	110,160	6,018	-	-	116,178
Engineering Equipment	43,466	4,295	-	-	47,761
Yard and Storage	162,656	10,814	-	-	173,470
Infrastructure –					
Roads	7,768,207	1,178,994	-	(369,662)	8,577,539
Bridges	1,344,497	90,058	-	(14,032)	1,420,523
Traffic signals	19,161	1,656	-	-	20,817
Depletable Assets	146,456	-	-	2,178	148,634
	<u>13,536,537</u>	<u>1,651,403</u>	<u>397,304</u>	<u>(380,739)</u>	<u>14,409,897</u>
Total Capital Assets, being depreciated, net	<u>15,962,210</u>	<u>2,231,155</u>	<u>21,944</u>	<u>2,399</u>	<u>18,173,820</u>
Governmental activity capital assets, net	<u>\$ 25,347,617</u>	<u>\$ 2,954,951</u>	<u>\$ 21,944</u>	<u>\$ -</u>	<u>\$28,280,624</u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 8 - GENERAL LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2005:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2005</u>
Accrued vacation	\$ 74,059	\$ 1,040	\$ -	\$ 75,099

Significant details regarding outstanding long-term liabilities are presented below:

Accrued Vacation -

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated vacation leave under formulas and conditions specified in the contracts. The dollar amounts of these vested rights which have been accrued on the financial statements amounts to approximately \$75,099 at December 31, 2005.

NOTE 9 - EMPLOYEE PENSION PLAN:

Plan Description -

The Alpena County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The Road Commission is required to contribute at an actuarially determined rate; the computed employer contribution average rate for 2005 was 11.29% for general and 15.84% for managing director. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 9 - EMPLOYEE PENSION PLAN – (cont'd):

Annual Pension Costs -

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$149,010 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to merit/longevity, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over the remaining period of 30 years.

Three-Year Trend Information

Fiscal Year Ending <u>December 31,</u>	Annual Pension Costs (APC)	Percentage of APC <u>Contribution</u>	Net Pension <u>Obligation</u>
2003	\$ 125,731	100 %	-
2004	144,288	100	-
2005	149,010	100	-

Schedule of Funding Progress

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u>	Unfunded (Overfunded) Accrued Liability (UAAL) <u>(b-a)</u>	Funded Ratio (AAL) <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>[(b-a)/c]</u>
2002	\$ 6,810,538	\$ 7,441,906	\$ 631,368	92	\$ 1,327,286	48 %
2003	7,127,445	7,764,676	637,231	92	1,265,608	50
2004	7,380,752	8,286,597	905,845	89	1,300,692	70

NOTE 10 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 9, the Alpena County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission between the ages of 60 and 65. At 65 and above, the Road Commission also contributes \$89 per month towards the cost of Medicare. Expenditures for post-employment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2005 these costs amounted to approximately \$23,148 with 17 eligible participants.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 11 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

The Road Commission participates in a number of agreements with the State of Michigan by which the Road Commission receives advances and reimbursements per the agreements. These advances and reimbursements are subject to audit by the State of Michigan. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

There are various legal actions pending against the Road Commission. Due to the inconclusive nature of many of the actions, it is not possible to determine the probable outcome or a reasonable estimate of the Road Commission potential liability, if any. The potential liability from legal actions, if any, is considered to be immaterial to the Road Commission.

NOTE 12 - ADVANCES AND DEPOSITS:

Advances of \$155,337 at December 31, 2005, are advanced by the State of Michigan for working capital and equipment purchases under a road maintenance contract the Road Commission has with the Michigan Department of Transportation.

Both advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The following is a summary of the balance at December 31, 2005:

State -	
Trunkline maintenance	\$ 46,751
Equipment	<u>108,586</u>
	<u>\$ 155,337</u>

NOTE 13 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool. The "Pool" established pursuant to the laws of the State of Michigan authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commission, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop-loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Alpena County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 13 - RISK MANAGEMENT – (cont'd):

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance. The amount of settlement claims for the last three years has not exceeded insurance coverage.

NOTE 14 - EQUIPMENT EXPENDITURE CREDIT BALANCE:

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions, charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The credit balance is the result of the equipment rental charged exceeding actual equipment expenditures for the year ended December 31, 2005 as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 732,531	\$ 414,265
Indirect	264,104	211,988
Operating	<u>227,957</u>	<u>227,957</u>
	1,224,592	854,210
Less-equipment rental	<u>(1,405,110)</u>	<u>(1,405,110)</u>
	<u><u>\$ (180,518)</u></u>	<u><u>\$ (550,900)</u></u>

SUPPLEMENTARY INFORMATION

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

DETAIL SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Permits -	\$ 27,334	\$ 24,623
Federal Sources -		
Federal STP program	398,744	427,861
Federal aid bridge	-	25
Federal D Funds	24,278	-
	<u>423,022</u>	<u>427,886</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	2,086,957	2,232,188
Local roads	978,218	1,022,835
Urban roads	150,801	177,776
Snow removal	27,549	26,024
Economic Development Fund	71,045	45,942
Critical bridge	383,582	-
	<u>3,708,152</u>	<u>3,514,765</u>
Local Sources -		
Township and city contributions	1,050,924	361,152
County	-	13,705
Private	313	-
	<u>1,051,237</u>	<u>374,857</u>
Charges for Services -		
Trunkline maintenance & nonmaintenance	591,609	592,725
Salvage sales	6,193	2,373
	<u>597,802</u>	<u>595,098</u>
Interest and rents	<u>64,712</u>	<u>42,507</u>
Other -		
Land and building sales	-	-
Gain on equipment disposal	225,722	18,232
Special assessments	44,581	94,243
Other	49,642	44,346
	<u>319,945</u>	<u>156,821</u>
Total Revenues	<u>\$ 6,192,204</u>	<u>\$ 5,136,557</u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Expenditures:	<u>2005</u>	<u>2004</u>
Construction/Capacity Improvements	\$ 13,466	\$ -
Preservation - Structural Improvements		
Primary roads and structures	3,161,919	819,679
Local roads and structures	<u>831,591</u>	<u>529,450</u>
	<u>3,993,510</u>	<u>1,349,129</u>
Maintenance -		
Primary roads and structures, winter and traffic control	1,266,483	1,077,521
Local roads and structures, winter and traffic control	<u>1,349,530</u>	<u>1,243,169</u>
	<u>2,616,013</u>	<u>2,320,690</u>
State Maintenance -		
Trunkline maintenance	561,948	537,822
Trunkline nonmaintenance	<u>29,661</u>	<u>41,969</u>
	<u>591,609</u>	<u>579,791</u>
Equipment -		
Direct	732,531	695,122
Indirect	264,104	260,406
Operating	227,957	145,149
Less - equipment rental	<u>(1,405,110)</u>	<u>(1,270,198)</u>
	<u>(180,518)</u>	<u>(169,521)</u>
Administrative -		
Administration	405,883	385,478
Less - overhead	<u>(68,026)</u>	<u>(62,569)</u>
- purchase discounts	<u>(3,623)</u>	<u>(3,213)</u>
	<u>334,234</u>	<u>319,696</u>
Capital Outlay -		
Equipment	599,378	576,569
Less - depreciation and depletion	<u>(402,638)</u>	<u>(339,886)</u>
	<u>196,740</u>	<u>236,683</u>
Total Expenditures	<u><u>\$ 7,565,054</u></u>	<u><u>\$ 4,636,468</u></u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
Revenues:				
Permits -	\$ -	\$ -	\$ 27,334	\$ 27,334
Intergovernmental -				
Federal Sources	423,022	-	-	423,022
State Sources	2,585,633	1,122,519	-	3,708,152
Local Sources	-	1,051,237	-	1,051,237
Charges for services	-	-	597,802	597,802
Interest	-	-	64,712	64,712
Other	-	44,581	275,364	319,945
Total Revenues	<u>3,008,655</u>	<u>2,218,337</u>	<u>965,212</u>	<u>6,192,204</u>
Expenditures:				
Construction/Capacity Improvements	-	13,466	-	13,466
Preservation - Structural Improvements	3,161,919	831,591	-	3,993,510
Maintenance	1,266,483	1,349,530	-	2,616,013
State maintenance	-	-	591,609	591,609
Equipment - net	(61,792)	(83,868)	(34,858)	(180,518)
Administrative-net	223,483	110,751	-	334,234
Capital outlay - net	-	-	196,740	196,740
Total Expenditures	<u>4,590,093</u>	<u>2,221,470</u>	<u>753,491</u>	<u>7,565,054</u>
Excess of revenues over (under) expenditures before optional transfers	(1,581,438)	(3,133)	211,721	(1,372,850)
Optional Transfers	<u>(3,133)</u>	<u>3,133</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	(1,584,571)	-	211,721	(1,372,850)
Fund Balance at beginning of year	<u>1,595,484</u>	<u>-</u>	<u>2,729,313</u>	<u>4,324,797</u>
Fund Balance at end of year	<u>\$ 10,913</u>	<u>\$ -</u>	<u>\$ 2,941,034</u>	<u>\$ 2,951,947</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of County Road Commissioners
of Alpena County
Alpena, Michigan

We have audited the financial statements of Alpena County Road Commission as of and for the year ended December 31, 2005, and have issued our report thereon, dated April 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Alpena County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alpena County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Alpena County Road Commission in a separate letter dated April 5, 2006.

This report is intended solely for the information and use of management and the Board of County Road Commissioners of Alpena County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

April 5, 2006

MANAGEMENT LETTER

Board of County Road Commissioners
Alpena County Road Commission
Alpena, Michigan

Members of the Board:

As you know, we have recently completed the audit of the financial statements of the Alpena County Road Commission as of and for the year ended December 31, 2005. As noted in the *Report on Internal Control over Financial Reporting and Compliance and Other Matters*, dated April 5, 2006, there were no compliance issues or material weaknesses.

As a result of the new statement of Auditing Standards No. 99 "Consideration of Fraud in the Financial Statement Audit" putting renewed emphasis on internal control over fraud, abuse and management override of controls in the workplace, the Michigan Department of Treasury is revising the Accounting Procedures Manual for Local Units of Government in Michigan. This revision is expanding required and suggested (best practice examples) procedures in internal controls over the various accounting processes.

In order to assist the Road Commission, we are making the following recommendations for your consideration to enhance accounting and administrative controls:

Controls over Disbursements

At the present time, the Road Commission has procedure in place to process disbursements which includes the maintenance of documentation to support the disbursements.

The new guidance is stressing that supporting documentation should include the original bill rather than a copy or a statement.

We recommend that a copy of the check be filed with all supporting documentation so that a direct relationship may be easily made to the disbursement supported and that original bills be used as support.

Controls over Payroll

At the present time, the Road Commission has controls over the processing, recording and reporting of payroll. However, with the complications with determining the allowability of certain fringes for payroll taxes and the resulting applications being processed correctly by the software, we suggest that the federal form 941 not only be agreed to the payroll records but also to payroll per the general ledger quarterly.

Also with the increased legal requirements on confidentiality, that the Road Commission consider providing payroll checks to employees in envelopes.

Controls over Transfer Vouchers

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedure requiring that transfer vouchers be formally approved allows for the possibility of inaccurate or fraudulent financial reporting.

We recommend that transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfers that are not standard entries, particularly if made to cash.

These recommendations were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2005 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of the management of the Alpena County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, appearing to read "Stewart, Beausaint Whipple".

April 5, 2006